

BEFORE THE  
POSTAL REGULATORY COMMISSION

---

Annual Compliance Report, 2016

---

:  
: Docket No. ACR2016  
:

---

MOTION OF UNITED PARCEL SERVICE, INC. FOR  
ISSUANCE OF INFORMATION REQUEST TO  
THE UNITED STATES POSTAL SERVICE

(January 19, 2017)

---

In accordance with 39 C.F.R. § 3050.11(c), United Parcel Service, Inc. ("UPS") respectfully requests that the Presiding Officer issue an Information Request to the Postal Service to obtain answers to the appended set of questions. These questions are intended to provide greater clarity regarding some of the very complex costing practices that underlie the Annual Compliance Report. Answers to these questions will serve the important goal of providing additional transparency regarding Postal Service costing practices to the public and to interested parties and may point to ways in which those practices can be improved or by which apparent anomalies can be addressed. As the Commission has observed, the Postal Accountability and Enhancement Act "relies on public transparency . . . to achieve its goal of Postal Service accountability." PRC Dkt. No. RM2008-1, Order No. 194 (March 20, 2009) ("Order No. 194") at 2.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By: /s/ Steig D. Olson  
Steig D. Olson  
Quinn Emanuel Urquhart & Sullivan, LLP  
51 Madison Ave., 22<sup>nd</sup> Floor

New York, NY 10010  
(212) 849-7152  
steigolson@quinnemanuel.com

***Attorney for UPS***

## **PROPOSED QUESTIONS:**

1. The Postal Service's Public Cost and Revenue Analysis reports for the last three years show volume variable and product specific cost per piece declining from \$1.569 in FY14 to \$1.243 in FY16 (a 20.8% decrease) for Ground.
  - a. Please explain why attributable cost per piece decreased by over 20% in the last two years for Ground.
  - b. Please explain why all other competitive products' attributable cost per piece (except International) increased while Ground decreased.
  
2. The Postal Service's November 15, 2016 press release, "U.S. Postal Service Reports Fiscal Year 2016 Results," states: "Operating expenses increased in 2016 compared to last year. In addition to a \$922 million increase in workers' compensation expense, compensation and benefits expenses increased by approximately \$1.2 billion and transportation costs increased by \$413 million. The growth in labor and transportation costs is largely due to the increase in Shipping and Packages volumes, which are more labor-intensive to process and require greater transportation capacity than mail."
  - a. Of the \$413 million cost increase in transportation, what amount is traceable to Shipping and Packages volume?
  - b. Of the \$1.2 billion in compensation and benefits expense increases, what amount is traceable to Shipping and Packages volume?
  - c. The 2016 10-K filed by the Postal Service indicates that in 2016, the Postal Service employs 509,000 career employees and 640,000 total employees, which is an increase in the corresponding figures from the 2015 10-K, of 492,000 career employees and 622,000 total employees. Is the 18,000 increase in headcount "largely due to the increase in Shipping and Packages volumes?" Of the 18,000 employee increase, what amount is traceable to Shipping and Packages volumes?
  
3. The Postal Service's November 15, 2016 press release, "U.S. Postal Service Reports Fiscal Year 2016 Results," states: "To drive growth in revenue and better

serve our customers, we continue to invest in the future of the Postal Service by leveraging technology, improving processes and adjusting our network,” said Postmaster General and CEO Megan J. Brennan. “In 2016, we invested \$1.4 billion, an increase of \$206 million over 2015, to fund some of our much-needed building improvements, vehicles, equipment and other capital projects.”

- a. How much of the \$1.4 billion investment mentioned was spent on the new Next Generation Delivery Vehicle (NGDV)?
  - b. How many vehicles were purchased?
  - c. Please refer to USPS-FY16-2 Public Cost Segments and Components Report, C/S 20.2 – Vehicle Depreciation.
    - i. Please confirm that 69.5% of the costs are institutional.
    - ii. Please confirm that only 5.2% of the costs in this segment were attributed to Domestic Competitive Products. If not, please clarify.
    - iii. Please indicate whether the depreciation costs for NGDVs purchased in or prior to FY16 are separately accounted for in the public library references in ACR2016, and if so where. Please also indicate how the method for attributing depreciation costs for NGDVs differs from that of the older vehicle fleet.
4. Please refer to USPS-FY16-2 Public Cost Segments and Components Report, C/S 12.1.1.3 – City Delivery Special Purpose Routes.
- a. Please specify the purpose of City Delivery Special Purpose Routes and what distinguishes them from other routes.
  - b. Please describe in detail the costs that appear in this cost segment. Further, please describe the basis for attribution of this segment, including any other cost components or cost pools on which these costs are “piggybacked.”
  - c. Please confirm that 58% of the costs of City Delivery Special Purpose Routes are classified as institutional.
  - d. Please confirm that 25.8% of the total costs in this segment are attributed to Competitive Products. If not, please clarify.

5. Please refer to USPS-FY16-2 Public Cost Segments and Components Report, C/S 7.3 Delivery Support:
  - a. Please explain what Delivery Support activities are.
  - b. Please confirm that 63% of these costs are institutional. If not, please clarify.
6. Please refer to USPS-FY16-2 Public Cost Segments and Components Report, C/S 6.2 In-Office Support:
  - a. Please explain what In-Office Support activities are.
  - b. Please confirm that 34.5% of these costs are institutional. If not, please clarify.
7. In comparing USPS-FY16-2 to USPS-FY15-2:
  - a. Please explain why C/A 10 Rural Carrier costs saw a 15.66% increase over the same period last year compared to a 3.26% for C/S 7 City Delivery Carriers – Street Activity.
  - b. Please explain why C/S 7 City Delivery Carriers – Street Activity in FY16 saw a 17.27% increase for FCM parcels and only a 3.26% increase for competitive products combined.
  - c. Please explain why C/S 10 Rural Carriers in FY16 saw a 37.72% increase for FCM parcels and only a 15.66% increase for competitive products combined.
8. Using USPS-FY16-39 FY2016 Competitive Products Fund Reporting Materials:
  - a. Please confirm that these materials indicate that, for FY16, the Postal Service paid only the required Institutional Cost contribution of 5.5%. If that is incorrect, please explain and demonstrate how the Postal Service accounts for the Institutional Cost contribution.
  - b. Please explain and demonstrate how the Postal Service accounts for the Assumed Federal Income Tax.